
2010 Special DWS Unemployment Insurance Tax Alert

2011 UI Tax Rates

In addition to the experience rate (0.1% – 10%) or new employer rate (2.9%), the 2011 rate again includes the 0.8% stabilization tax and the 0.1% extended benefit tax. The lowest tax rate will be 1.0%, the highest 10.9%, and the new employer rate will be 3.8%. The taxable wage base will remain at \$12,000.

Advance Interest Tax

As reported in the 2009 special newsletter the fund used to pay regular UI benefits became insolvent in March of 2009. Since that time Arkansas has received advances from the US Treasury in order to pay regular state UI benefits. Thanks to the American Recovery and Reinvestment Act of 2009 interest on the advances was waived through December 31, 2010. If the waiver is not extended the interest will start accruing January 1, 2011 with the first interest payment due on or before September 30, 2011. Arkansas law provides for a separate 0.2% advance interest tax to trigger on the quarter following the quarter in which advances become interest bearing. If the advance interest is not waived an additional 0.2% tax will be added to all rates effective April 1, 2011. The tax will remain in effect until such time as all advances and interest are repaid and the advance interest fund has a balance of five million dollars.

FUTA Tax Credit Reduction

Aside from state unemployment insurance taxes, employers also pay a federal unemployment or FUTA tax. The FUTA tax rate is 6.2% with a taxable wage base of \$7,000. However, if an employer pays its state unemployment insurance taxes, the FUTA tax is reduced by 5.4% to 0.8%. Once a state has outstanding advances on January 1st of two consecutive years the FUTA credit reduction is reduced by 0.3%. January 1, 2011 will mark the second January 1st on which Arkansas has had an outstanding advance and unless Congress passes legislation to the contrary the FUTA credit reduction will be reduced to 5.1% making the FUTA tax 1.1%. Employers will pay the additional 0.3% tax in 2012 when paying their 2011 FUTA taxes. An additional 0.3% reduction will occur each year until the advances and interest are repaid.

2011 Legislative Session

Our trust fund solvency and the need for advances are the direct result of the severe economic recession that hit Arkansas in the fall of 2008. The situation was worsened by the fact that our unemployment insurance trust fund had just begun to recover from the previous recession when this latest recession hit. In order to return the advances and interest to the US Treasury and to build a solvent trust fund, major steps must be taken in the 2011 legislative session both on the tax and the benefit side. DWS continues to work with its Advisory Council to develop legislation that will address our solvency issues and be equitable to both the employer and worker communities.
